

# RatingsDirect®

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## Summary:

# Burbank, California; General Obligation

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### Credit Profile

Burbank ICR

*Long Term Rating*

AAA/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' issuer credit rating (ICR) on Burbank, Calif. The outlook is stable.

The ICR reflects our view of the city's:

- Strong local economy and steady tax base growth, as well as its convenient, attractive location, with easy access to the greater Los Angeles area;
- Strong income levels coupled with extremely strong market value per capita; and
- Very strong financial position, with an available general fund balance of more than 36% of expenditures.

Burbank occupies approximately 17 square miles and is 12 miles from downtown Los Angeles. Its steady population of roughly 103,000 benefits from the city's own employment opportunities and the broad employment opportunities in the greater Los Angeles area. The city counts leading entertainment companies as two of its top three employers: The Walt Disney Co. (7,900 employees) and Warner Bros. Entertainment (7,400). St. Joseph's Hospital (2,850) is the third leading employer.

Assessed valuation (AV) for the city has increased by about 48% to \$18.13 billion in fiscal 2009 from \$12.2 billion in fiscal 2004, a compounded annual growth rate of more than 8%. Since then, AV has been relatively flat and stood at \$18.34 billion for fiscal 2013. Fiscal 2013 per capita market value (AV), in our view, is extremely strong at \$176,995, which reflects the presence of the entertainment industry and strong residential housing market. Income levels, in our opinion, are strong, with per capita and median household effective buying income at 124% and 116% of the national averages, respectively. The leading 10 taxpayers account for 13.6% of the AV, which we consider to be very diverse.

Complementing the strength of the city's economic base, the city's finances have had healthy growth, in our view, because of a diverse general fund revenue stream of property tax (18%), sales tax (18%), utility users' tax (14%), other local taxes (14%), and various other sources. In our view, the city also has expenditure flexibility, spending about 15% of resources on recreation. What we consider conservative financial management, including a general fund reserve policy of 20% of expenditures (including a 5% emergency reserve), enables the city to continue posting strong fund balances. The city ended fiscal 2012 with an available (assigned and unassigned) general fund balance of \$55.6 million, or in our opinion, a very strong 36.5% of general fund expenditures. Historically, available general fund balance levels have been very strong and have exceeded 40% of expenditures during the past five years.

For fiscal 2013, the city projects closing the year near budget, except for extraordinary losses related to an invalidation of a portion of a loan that the former redevelopment agency (RDA) repaid to the city. The portion amounts to nearly

\$10.5 million, which as of fiscal year-end 2012 was part of the city's unassigned fund balance. The city's fiscal 2012 audit also shows a receivable of nearly \$27 million in related loans due to the city from the former RDA; we understand that the \$27 million is held as a nonspendable reserve fund). It is our understanding that both these items will be considered extraordinary losses and would lower the city's available (assigned and unassigned) fund balance by \$10.5 for fiscal 2013. We project that this extraordinary loss, together with the projected deficit, will result in an ending fiscal 2013 available fund balance of nearly \$43 million, or what we consider to be a very strong 28.7% of expenditures. The city reports that it will request that the county's oversight board approve the combined \$37.5 million loan that the RDA successor agency will repay to the city in future years. If approved, the loan will increase the city's reserve, yet only gradually increasing liquidity over the life of the loan repayment. We believe that the city's continuing financial operations are stable despite the invalidation of the loan repayment.

We consider the city's management practices "strong" under our financial management assessment (FMA) methodology. An FMA of "strong" indicates our view that practices are strong, well embedded, and likely sustainable. Highlights of the district's policies and practices include quarterly budget reports to the city council, longer-term financial planning that incorporates major revenue and expense line items, and a five-year, annually updated capital plan that identifies funding sources. The city has a formal written reserve policy that requires a general fund working capital reserve (including a 5% emergency reserve) that equals at least 20% of the operating budget. The city has a formal debt management policy.

Overall debt burden for the city is, in our view, moderate at \$3,722 per capita, or a low 2.1% of AV for fiscal 2013. The city has no general-fund-supported debt. The debt service carrying charge is at what we consider a moderate level, representing 13% of fiscal 2012 governmental expenditures. Nearly half of the city's debt burden is related to former redevelopment tax allocation bonds. Management reports that it does not plan on issuing any general obligation debt in the near future. The city makes its annually required contribution to the state-managed California Public Employees' Retirement System. The city also provides other postemployment benefits to its employees (three categories). The liability is paid on a pay-as-you-go basis, and for fiscal 2012 the total amount was approximately \$2.7 million (118% of ARC). The district reports that its actuarially accrued other postemployment benefits liability was \$34.5 million as of June 30, 2012, the latest valuation date.

## Outlook

The stable outlook reflects our anticipation that the city will likely maintain a strong financial position despite a tax base that, in our view, is somewhat concentrated in entertainment. Moreover, if the tax base continues to expand and diversify, these concerns will dissipate, especially given our view of the city's strong financial operations and diverse revenue stream.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

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